

National **Charter School** **Resource** Center



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at LEARNING POINT ASSOCIATES

Financing 101

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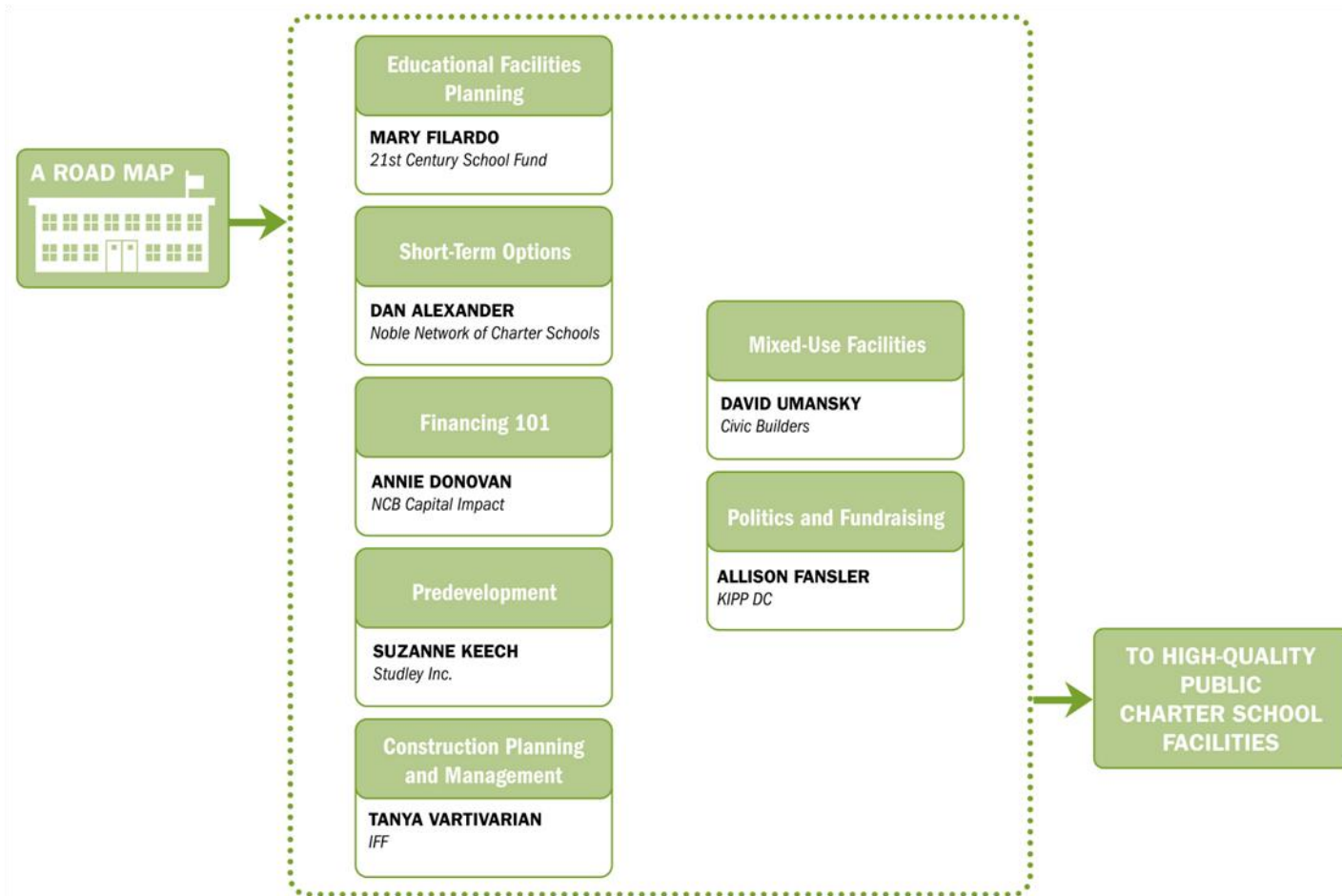
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Facilities Process Overview



Why Is Financing So Important?

- Facilities issues absorb the time and energy of school administrators, whose expertise is education, not real estate.
- Facilities costs can deplete resources that should be spent on instruction.
- Facilities problems prevent some schools from expanding to meet demand.

Financing: Loan Types

- Construction
 - Interest-only, 6–18 months, disbursements
 - Permanent loan: mortgage or bond
 - Maximum loan-to-value, interest-only, or principal and interest; includes modulars and refinances
 - Leasehold improvement (LHI) loan
 - Term equal to lease, leasehold mortgage and lease assignment, interest-only, or principal and interest
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Financing: Loan Types

- New Markets Tax Credit
 - Term 7 years, interest-only
- Working capital or line of credit
 - Short-term cash flow, interest-only
- Program Related Investments
- Credit Enhancement

Underwriting Charter Schools: The Challenge

- Slim margins
- Minimal cash reserves
- Seasonal operating cycles
- Reliance on grants in the start-up phase
- Charter renewal process
- Political environment
- Facility needs

The Five C's of Lending/Credit

- **Character**
- **Competition**
- **Credit**
- **Cash flow (or capacity)**
- **Collateral**

The Five C's of Lending: Character

- What experience does the school's management team and board have?
- Does the school have a project manager for construction?
- What is the school's history and academic performance?

The Five C's of Lending: Competition

- What are the school's enrollment and growth trends?
 - How does the school's student achievement compare to nearby schools?
 - Renewal risk: Is the term of the loan tied to the charter length?
 - What are the politics as related to local government, authorizer, and state?
 - Who is the school's authorizer? How is the relationship?
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The Five C's of Lending: Credit

- Credit = Financial condition and performance
- Balance sheet: How much cash and debt does the school have?
- Income statement: Has there been positive net income?
- Credit history/track record: What is the school's credit history?

The Five C's of Lending: Cash Flow

- Can the school repay a loan?

Debt Service Coverage Ratio (DSCR) =

Net income + Interest + Depreciation + Amortization + Rent

Current portion of long-term debt + Interest expense

- Projections: Do the projections show an ability to pay back the loan?

The Five C's of Lending: Collateral

- What is the collateral? Building, modular units, leasehold improvements, and/or assignment of lease used as collateral
- Does the school have the 10%–20% down payment that is generally needed?
- What is the loan-to-value ratio?
- Has the lender requested an appraisal and Environmental Phase I assessment?

How Does the School Apply for a Loan?

Prepare the following documents to start the loan process:

- Enrollment figures
- Academic performance
- 3 years of financial statements
- Year-to-date financial statements
- Projections
- Project budget

You be the lender!

Financing: Key Take-Aways

- Do your homework!
- Talk to lenders early.
- Hire the right professionals.
- Consider going “green.”

Q & A

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